HIGGINS INVESTMENT GROUP INC.

April Market Analysis

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The Markets

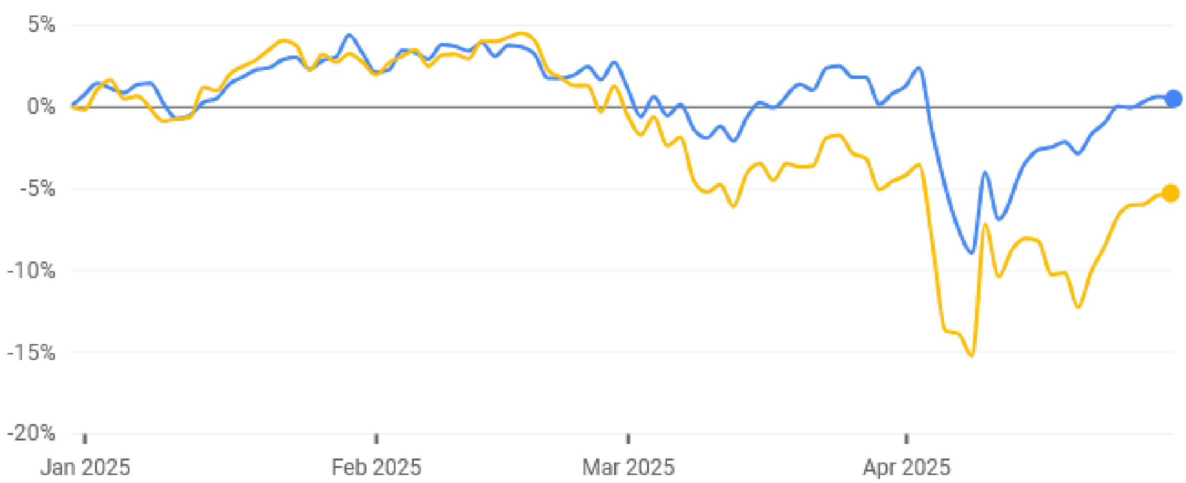
	April	Change in Month	Year –To-Date
S&P TSX	24841	−0.3%	0.4%
S&P 500	5568	−0.8%	−5.2%
Dow 30	40705	−3.1%	−4.2%
Oil	$58.17	-18.9%	−18.9%
Gold	$3303	4.6%	25.1%

In prior months we indicated a desire to avoid discussing tariffs as we do not know how things will end. I have to say the major influence this month was the fact no one knew how things would end. The markets dropped 10% when the US President announced his reciprocal tariffs on Liberation Day. Tariffs on goods from most countries were in double digits while the tariffs imposed on Chinese goods hit 145%. After a day pause China put a reciprocal tariff of 125% on Trump's reciprocal tariff, essentially a reciprocal, reciprocal tariff. A week later Trump put a 90 day pause on the tariffs and the markets recaptured more than half the previous decline. With a week to go in the month markets were roiled by the President's comment that the chairman of the Federal Reserve should be replaced, and he was willing to force the chairman out. Whoops. Then the President indicated he did not intend to make the change to the chairman's position. Markets recovered. It was a rollercoaster ride where you ended up back where you got on the rollercoaster.

Safety was the best word of the month, contrary to those who think tariff is the best word in the dictionary. The Consumer Staples sector was the best performing with a return above 8% this month. The grocery stores are in the Consumer Staples sector and when you pay more for a Canadian product they make more, and they all reported better earnings. As we have seen in the past few months, gold rose in times of uncertainty and a rising commodity price led to rising prices for the Gold stocks in the TSX. Gold is a subsector of the mining sector, more on that later. Another safe harbour is the Utility stocks that were the next best performing sector. At the other end of the spectrum were the stocks in the Energy sector that were down double digits in line with the decline in the price of oil. Health Care stocks, cannabis in other words, were also down double digits this month. Fears of a global recession pulled commodities, such as copper, lower and this led to a greater than 8% decline in the Base Metal stocks.

The graph below presents the performance of the S&P 500 and the S&P TSX for year-to-date.

Year-to-Date Performance S&P 500 and TSX



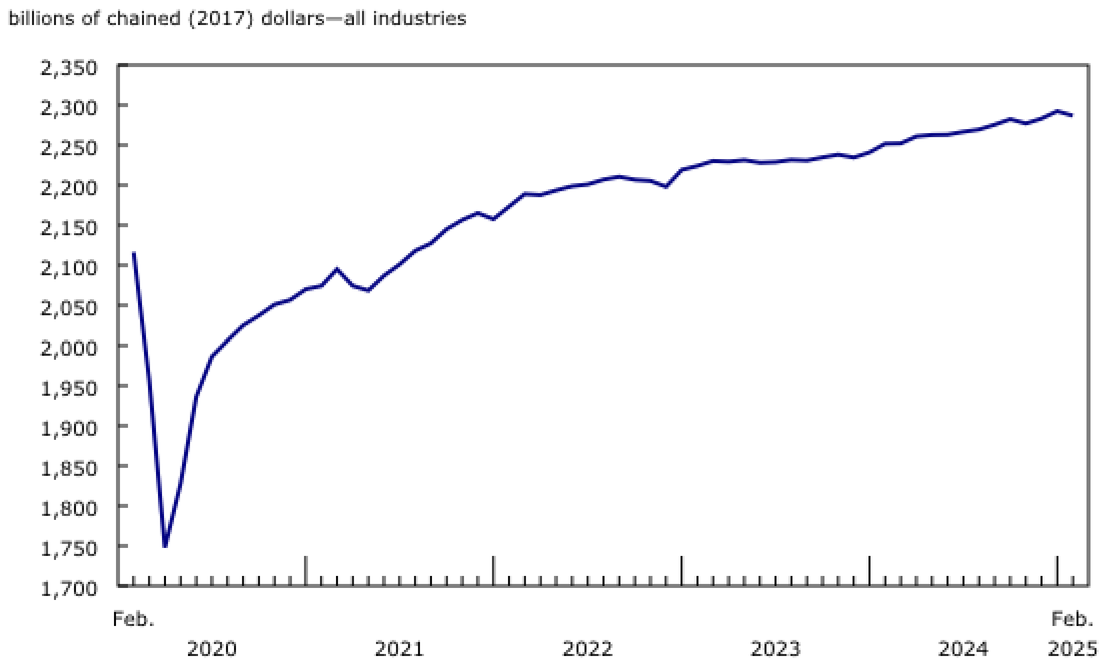
TSX, S&P 500 source google.com/finance

<u>Economic Indicators</u>

Our economic indicators section is less in depth than in a typical month as nearly every economic statistic is impacted by tariffs or will be. It is like driving forward by looking in the rearview mirror.

1. **Canadian GDP**

Canada's Gross Domestic Product shrank by 0.2% in February. If you look at the graph below it is only a blip in a long-term growth trend. One point to consider is these values are for GDP for the economy some argue this misses the fact that GDP per person has declined over the past few years. I can mention this now without being political.



Weakness in oil extraction and mining were significant contributors to the decline. Oil sands production was down. Oil sands production declined 3.8% and the oil and gas sector contracted by 2.8%. There were similar declines in the mining sector. Uncertainty in the real estate market led to a decline in residential construction. Just think how many condos are being completed while no new ones begin construction. This is also evident in activity in real estate and the rental sector that contracted by 0.4% as activity at real estate brokers that contracted by more than 10%.

One factor to consider is some companies shipped goods to the US to make sure they arrived before any potential tariffs. This could mean lower production in future months as the goods are already in the US. This does not include any reduction in demand because of tariffs.

2. A Statistics Canada discussion on the impact of tariffs on certain sectors. This is a direct quote from their report.

"…….direct impacts refer to the jobs or GDP generated within the exporting industry itself, while indirect impacts pertain to the jobs or GDP created through the demand for the industry's products by other exporting industries. An industry's output attributed to foreign demand refers to the jobs and GDP generated through both direct and indirect impacts.

For instance, in the steel industry, direct jobs due to exports are those required to produce the industry's exports. Indirect jobs, on the other hand, are those in the steel industry needed to supply products to the exports of other industries, such as car parts manufacturing and aerospace manufacturing….

The manufacturing sector is one of the industrial sectors with the highest exposure to the US market, relying on demand from the United States for 42% of its output and 41% of its workforce in 2023. Transportation equipment manufacturing was one of the manufacturing subsectors that relied the most on exports to the United States, with 52% of its output attributed to direct exports to the United States and 61% of its output (see Infographic 1) attributed to total demand from the United States. Similarly, 63% of the workforce in the transportation equipment manufacturing subsector was attributed to total demand from the United States.

Within this subsector, the motor vehicle manufacturing and the motor vehicle parts manufacturing industries were by far the industries with the highest reliance on exports to the United States. The motor vehicle manufacturing industry relied on demand from the United States for 82% of its output (see Infographic 2) and 81% of the industry's jobs. The motor vehicle parts manufacturing industry relied on demand from the United States for 77% of its output and 76% of the industry's jobs. In contrast to the motor vehicle manufacturing industry where reliance on US demand is almost entirely in the form of direct exports, the motor vehicle parts manufacturing industry relied on demand from the United States through a combination of direct exports (53% of output and 51% of employment) and indirect exports (24% of output and 25% of employment) as parts produced were also embedded in other exports, such as motor vehicles."

A reflection on retirement and random thoughts.

The recent market turmoil caused many to review their portfolio mix and the ability of their portfolio to provide for their retirement. This is a good time for investors to check their risk tolerance. When an advisor asks an investor if they can handle short-term volatility if there is likely to be positive returns in the mid to longer term, most say yes. Then we get a month like this and after a few days you say I don't like this. This is my savings for ______,(retirement, new purchase, etc.) That is when you fully understand your risk tolerance.

There is a rule of thumb that investors can draw down their retirement savings by 4% per year. Some argue this will cause many people to run out of money while they still must pay rent or for a retirement home. What if the market had a major decline? The major US markets declined close to 20% from their peak. Does this mean your retirement is in jeopardy? No.

1. The decline is from the market peak. Did your retirement planning start at the market peak? Obviously, no. Then the decline means less than you expect. It does make you nervous but is not relevant since you did not plan to sell your investments if they hit a target amount that just happened to equal the recent market peak.
2. The next point to consider is whether the decline is permanent or temporary. If the decline is permanent, it can impact your retirement goals. As we all know markets fluctuate and short-term market gyrations should not impact your portfolio objectives. The value of your portfolio is only somewhat relevant to needs for your retirement. You are likely to need cash over the time you retire, not just on the day you retire. Let's assume there is a market crash the day before you retire. Instead of having $1 million in savings you have $800,000. If you needed to sell everything and buy an annuity this would have a major impact. What if you want to withdraw a monthly amount. If you withdraw a fixed amount each month then the market value of your investments only matters on the portion you must sell to meet your need for cash. I have some clients that take a quarterly income and others that take a monthly payment. They have seen their portfolio rise and fall but with minimal impact on their withdrawals. This is the reverse of dollar cost averaging of making a steady deposit to your investments, so you buy more shares when the prices are down.
3. The other fact missing from this analysis is the income your portfolio generates. Depending on your portfolio composition your portfolio generates income whether the portfolio has a high value or has declined. If your cash needs are 4% of your portfolio it may generate enough income to cover your needs. If you are risk adverse long-term government of Canada bonds have a 3% dividend yield. This means you are only drawing down 1% of your portfolio each year. Some private placements pay 8% but these are only suitable for investors willing to take above average risk and for a portion of their portfolio. The dividends on Canadian banks stocks are above 4% and the banks have not decreased their payout for decades or ever. Some clients have portfolios structured to pay out monthly income just from their investments. These portfolios are less diversified, as they are concentrated on dividend paying stocks such as banks, pipelines and preferred shares, than a typical portfolio. One factor that changes this analysis is the need for one-time payments to cover a major expense.

Market volatility may have less impact on your retirement than you might expect. That said, the recent market gyrations may give you a reason to reassess your stated risk tolerance.

Some random thoughts.

All the political parties proposed policies to make housing more affordable. Sounds good in theory but this may not be what you want. In Toronto no new condos are being started. To start construction, they need to sell presell 75% of the project and get bank financing. Unfortunately, many of the previous buyers were investors who hoped to rent the properties or flip them for a profit. Units were sold for prices above $2000 per square foot. I remember when $1000 per foot was aspirational. Investors have put their units up for sale at prices lower than they paid. There is a problem here. The banks lend based on the value of a property, not the price you paid. If recently completed units sell for less than they cost, then everyone who wants a mortgage in that building must qualify based on the most recent sale not what they paid. Some people no longer qualify for a mortgage based on the new price as they have more leverage than the bank allows. This means they are likely to put their unit up for sale or try to hand it back to the builder and lose their deposit.

All the parties proposed some way to reduce the cost of new construction. If new buildings cost less to build than existing units then they can be sold for less. If there is a glut of newer and cheaper units then the price of existing units will have to drop. Lower prices can cause people to lose money on their home when they sell. Like the other investors in the previous paragraph, many may not qualify for mortgages. If rentals are built and are affordable that means families can move from their current rental to a lower priced rental. This will drive the rent down on existing properties. Lower cash flow for landlords means lower prices for the properties when they sell them.

Seems like a good idea but when grandma must sell her condo and move into an assisted living centre she will get less money for her condo and may not have enough to pay for her assisted living centre for the rest of her life. This is a bit of hyperbole BUT no party campaigned on the policy of lower the value of your house. More affordable housing means lower house prices, even on existing houses. There are two sides to every coin. I support lower prices for new families just not for my house.

Be careful what you wish for you may get it.

Summary

"*"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."*
Peter Lynch

We discussed two issues in our reflection section this month. The first was the concept that market volatility might impact your view of your retirement but that it might have less impact than you expect. One reason is that you typically do not liquidate your portfolio the day you retire so the value on that date is only one date in, hopefully, a series of days of retirement. You must consider the fact your portfolio generates income that is not impacted by the daily price of the portfolio. The income your portfolio generates can cover much of your retirement cash needs. The second theme was the goal of affordable housing is a double-edged sword. If new housing is cheaper than existing housing, then the price of existing housing will have to decline. I don't think any political party's platform told people the value of their home should decline. I want my kids to have access to affordable housing so I would vote for any of the parties, but I do not want my store of value, my house, to decline in value. Like the two old men in the political ad, I might want change, but I don't want the value of my house to change in a negative way.

We were not very active with client accounts this month. We take a longer-term view and as we mentioned last month it is difficult to make changes given the almost daily changes to tariffs. Our portfolios had limited direct exposure to tariffs, no steel or auto stocks. Our portfolios benefited from the rise in gold prices but were hurt by declines in the energy sector. That is part of portfolio construction. As discussed in our reflection section, we focus on the income the portfolios generate from dividends and interest.